

CITY OF FAIRFIELD, IOWA
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2012

CITY OF FAIRFIELD, IOWA

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CITY OF FAIRFIELD, IOWA

OFFICIALS
JUNE 30, 2012

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Edward Malloy	Mayor	January 2016
Connie Boyer	Council Member/Mayor Pro Tem	January 2016
Michael Halley	Council Member	January 2014
John F. Revolinski	Council Member	January 2014
Martha Rasmussen	Council Member	January 2016
Daryn Hamilton	Council Member	January 2016
Tony Hammes	Council Member	January 2016
Susan Silvers	Council Member	January 2016
Kevin Flanagan	City Administrator	Indefinite
Joy Messer	City Clerk	Indefinite
John Morrissey	City Attorney	Indefinite

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members
of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Fairfield, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Fairfield, Iowa's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Fairfield, Iowa as of June 30, 2012, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated February 21, 2013 on our consideration of the City of Fairfield, Iowa's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Fairfield, Iowa's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2011 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. The financial statements for the eight years ended June 30, 2010 (which are not presented herein) were audited by other auditors. The other auditors expressed unqualified opinions on those financial statements which were prepared in accordance with an other comprehensive basis of accounting. The supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Fairfield, Iowa's basic financial statements. Management's Discussion and Analysis and the budgetary comparison information on pages 4 through 9 and 25 through 27 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

ANDERSON, LARKIN & CO. P.C.

Ottumwa, Iowa
February 21, 2013

CITY OF FAIRFIELD, IOWA

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

The City of Fairfield, Iowa provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2012 FINANCIAL HIGHLIGHTS

- Receipts from the City's governmental activities decreased 44.4% or \$6,603,857 from fiscal year 2011 to fiscal 2012. Proceeds from general obligation debt decreased \$5,995,850.
- Disbursements of the City's governmental activities decreased 16.6% or \$1,966,641 from fiscal 2011 to fiscal 2012. Debt service disbursements decreased \$1,213,887 and community and economic development expenditures decreased \$1,129,128.
- The City's total cash basis net assets decreased 29.6% or \$1,528,385 from June 30, 2011 to June 30, 2012. Of this amount, the net assets of the governmental activities decreased \$1,284,884 and the net assets of the business type activities decreased by \$243,501.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets - Cash Basis. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operation in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Supplementary Information provides detailed information about the non-major governmental and proprietary funds and the City's indebtedness. In addition, the Schedule of Receipts by Source and Disbursements by Function provides comparative detail of the City's governmental receipts and disbursements.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets - Cash Basis reports information that helps answer this question.

The Statement of Activities and Net Assets - Cash Basis present the City's cash basis net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets - Cash Basis is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the water, sewer, solid waste, airport hanger and Logan apartments. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Funds and 5) the Permanent Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three enterprise Funds to provide separate information for the water, sewer and Logan Apartments funds, all are considered to be major funds of the City. In addition, there are two nonmajor enterprise funds.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$3,683,057 to \$2,398,173. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities

	Year Ended June 30,	
	<u>2012</u>	<u>2011</u>
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 528,780	\$ 602,577
Operating grants, contributions and restricted interest	1,132,419	1,448,265
Capital grants, contributions and restricted interest	1,092,623	1,279,389
General receipts:		
Property and other city tax, including tax increment financing	4,474,248	4,458,315
Local option sales tax	833,706	783,572
Hotel/motel tax	114,619	93,222
Utility franchise tax	82,229	90,064
Unrestricted interest on investments	11,726	14,251
General obligation debt proceeds	-	5,995,850
Sale of capital assets	(9,098)	20,150
Other general receipts	<u>16,184</u>	<u>95,638</u>
Total receipts	<u>8,277,436</u>	<u>14,881,293</u>
Disbursements:		
Public safety	1,773,322	1,857,711
Public works	788,506	120,088
Health and social services	24,042	39,585
Culture and recreation	1,968,927	1,491,155
Community and economic development	134,867	1,263,995
General government	700,625	815,111
Debt service	1,574,018	2,787,905
Capital projects	<u>2,889,145</u>	<u>3,444,543</u>
Total disbursements	<u>9,853,452</u>	<u>11,820,093</u>
Change in cash basis net assets before transfers	(1,576,016)	3,061,200
Transfers, net	<u>291,132</u>	<u>255,207</u>
Change in cash basis net assets	(1,284,884)	3,316,407
Cash basis net assets beginning of year	<u>3,683,057</u>	<u>366,650</u>
Cash basis net assets end of year	\$ <u>2,398,173</u>	\$ <u>3,683,057</u>

The City's total receipts for governmental activities decreased 44.4% or \$6,603,857. The decrease in receipts was primarily the result of proceeds from debt received by the City during the prior year.

The total cost (disbursements) of all programs and services decreased by \$1,966,641 or 16.6%. The decrease in disbursements was primarily the result of less expenditures for community and economic development and debt service during the current year.

Changes in Cash Basis Net Assets of Business Type Activities

	Year Ended June 30,	
	<u>2012</u>	<u>2011</u>
Receipts:		
Program receipts:		
Water	\$ 2,393,980	\$ 2,314,791
Sewer	2,746,919	2,209,827
Airport hangar	64,480	69,553
Logan Apartments	156,038	149,357
Solid Waste	525,940	421,010
Operating grants, contributions and restricted interest	476,065	212,634
Capital grants, contributions and restricted interest	241,002	-
General receipts:		
Proceeds long-term debt	2,986,470	-
Other general receipts	<u>7,941</u>	<u>100,638</u>
Total receipts	<u>9,598,835</u>	<u>5,477,810</u>
Disbursements and transfers:		
Water	1,787,885	2,204,035
Sewer	6,697,174	1,554,257
Airport Hangar	384,349	249,096
Logan Apartments	167,249	196,536
Solid waste	<u>514,547</u>	<u>479,690</u>
Total disbursements	<u>9,551,204</u>	<u>4,683,614</u>
Change in cash basis net assets before transfers	47,631	794,196
Transfers, net	<u>(291,132)</u>	<u>(255,207)</u>
Change in cash basis net assets	<u>(243,501)</u>	<u>538,989</u>
Cash basis net assets beginning of year	<u>1,481,953</u>	<u>942,964</u>
Cash basis net assets end of year	\$ <u>1,238,452</u>	\$ <u>1,481,953</u>

Total business type activities receipts for the fiscal year increased \$4,121,025 or 75.2%. The increase in receipts was primarily the result of an increase in proceeds from long-term debt.

Total business type activities disbursements and transfers increased \$4,867,590 or 103.9%. This resulted primarily from a increase in sewer expenditures.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Fairfield, Iowa completed the year, its governmental funds reported a combined fund balance of \$2,398,173, a decrease of \$1,284,884 from last year's total of \$3,683,057. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$1,103,664 from the prior year to \$ (1,290,888) primarily due to an increase in transfers out.
- The Special Revenue, Road Use Tax Fund cash balance increased \$110,142, or 96.6%, to \$224,115. This was primarily due to a decrease in expenditures.
- The Special Revenue, Local Option Sales Tax Fund cash balance increased \$823,246, or 106.4%, to \$1,596,987. This primarily due to an increase in receipts and a decrease in disbursements.

- The Special Revenue, Employee Benefits Fund cash balance increased \$137,095, or 35.7%, to \$520,630. This increase was primarily due to an increase in property tax receipts.
- The Special Revenue, Energy Efficiency Fund cash balance increased \$170,715, or 50.0%, to \$512,125. The increase was due to an increase in receipts.
- The Fairfield Public Library Foundation Fund cash balance decreased \$8,852 from the prior year to \$881,980 due to a loss on sale of investments.
- The Debt Service Fund cash balance increased \$370,677 (prior year was \$43,594) to \$520,338, due primarily to a decrease in debt service expenditures.
- The Capital Projects Fund cash balance decreased \$1,704,131 to \$(1,292,424). This decrease is primarily due to the decrease in proceeds from long term debt compared to prior year.
- The Permanent Fund Library Endowment cash balance increased \$228 from the prior year to \$477,348 due to increase in interest received over transfers out.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased \$403,791 to \$239,663 primarily due to an increase in intergovernmental receipts and a decrease in debt service expenditures.
- The Sewer Fund cash balance decreased \$755,359 to \$797,736, primarily due to the increase in capital projects expenditures.
- The Logan Apartments Fund cash balance increased \$46,996 from the prior year to \$191,246 due to an increase in rent received over transfers out.

BUDGETARY HIGHLIGHTS

The City amended its budget one time during the year, increasing budgeted disbursements from \$8,833,892 to \$19,967,892, primarily due to an increase in business type activities expenditures.

The City's receipts were \$4,010,098 less than budgeted. This was primarily due to the City receiving less charges for service receipts in the current year compared to budget.

The City exceeded the amount budgeted in the health and social services, culture and recreation, general government and capital projects functions for the year ended June 30, 2012, due primarily to various capital projects and other activities which were not budgeted.

DEBT ADMINISTRATION

At June 30, 2012 the City had \$18,003,854 in bonds and other long-term debt, compared to \$16,481,726 last year, as shown below.

Outstanding Debt at Year End

	Year ending June 30,	
	2012	2011
		As Restated
General obligation bonds	\$ 9,420,000	\$ 10,345,000
General obligation capital loan notes	915,000	1,130,000
Sewer revenue capital loan notes	2,986,470	-
Water revenue capital loan notes	4,114,000	4,421,000
Local option sales and services tax revenue bonds	550,000	550,000
Lease purchase agreements	<u>18,384</u>	<u>35,726</u>
Total	\$ <u>18,003,854</u>	\$ <u>16,481,726</u>

Debt increased due to debt issuance in excess of payments made on outstanding debt during the fiscal year.

The City carries a general obligation bond rating of A2 assigned by national rating agencies on the \$4,915,000 general obligation bonds issued on July 1, 2010. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of approximately \$10.3 million is below its constitutional debt limit of approximately \$20.9 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The elected and appointed officials of the City of Fairfield considered many factors when setting the fiscal year 2013 budget, tax rates and fees for various City services. One of those factors is the economy. Average unemployment in Jefferson County was 5.7% (October 2012) versus 6.6% a year ago. This compares with the State's unemployment rate of 5.1% and the national rate of 7.9%.

These indicators were taken into account when adopting the budget for fiscal year 2013. The tax rate for fiscal year 2013 is \$15.83 per thousand dollars of taxable valuation. This is a slight decrease compared to the tax rate for fiscal year 2012 of \$16.36 per thousand dollars of taxable valuation. Amounts available for appropriation in the operating budget are approximately \$13,333,843, a decrease of 29.5% from the final fiscal year 2012 budget. Budgeted disbursements are expected to decrease approximately \$6,734,645. This decrease is primarily due to business type activities. The City has added no new programs to the fiscal year 2013 budget.

If these estimates are realized, the City's budgeted cash balance is expected to increase approximately \$100,596 by the close of fiscal year 2013.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Joy Messer, City Clerk, 118 South Main Street, Fairfield, Iowa 52556-0850.

BASIC FINANCIAL STATEMENTS

CITY OF FAIRFIELD, IOWA

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

Functions/Programs	Disbursements	Charges for Service	Program Receipts	
			Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<u>GOVERNMENTAL ACTIVITIES:</u>				
Public safety	\$ 1,773,322	\$ 114,969	\$ 93,384	\$ -
Public works	788,506	8,339	897,671	-
Health and social services	24,042	-	-	-
Culture and recreation	1,968,927	391,212	86,535	-
Community and economic development	134,867	14,260	6,039	-
General government	700,625	-	48,790	-
Debt service	1,574,018	-	-	-
Capital projects	<u>2,889,145</u>	<u>-</u>	<u>-</u>	<u>1,092,623</u>
Total governmental activities	9,853,452	528,780	1,132,419	1,092,623
<u>BUSINESS TYPE ACTIVITIES:</u>				
Water	1,787,885	2,393,980	-	241,002
Sewer	6,697,174	2,746,919	-	-
Airport hangar	384,349	64,480	369,547	-
Logan Apartments	167,249	156,038	106,518	-
Yard waste	<u>514,547</u>	<u>525,940</u>	<u>-</u>	<u>-</u>
Total business type activities	<u>9,551,204</u>	<u>5,887,357</u>	<u>476,065</u>	<u>241,002</u>
TOTAL	\$ <u>19,404,656</u>	\$ <u>6,416,137</u>	\$ <u>1,608,484</u>	\$ <u>1,333,625</u>

GENERAL RECEIPTS AND TRANSFERS:

Property and other city tax levied for:
General purposes
Debt service
Employee benefits
Tax increment financing
Local option sales tax
Hotel/motel tax
Utility franchise tax
Unrestricted interest
Loss on sale of assets
Proceeds from long-term debt
Miscellaneous
Transfers
Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

CASH BASIS NET ASSETS:

Restricted:
Nonexpendable:
Permanent fund
Expendable:
Urban renewal purposes
Debt service
Streets
Other purposes
Unrestricted
Total basis net assets

See Notes to Financial Statements

Net (Disbursements) Receipts and
Changes in Cash Basis Net Assets

Governmental Activities	Business Type Activities	Total
\$ (1,564,969)	\$ -	\$ (1,564,969)
117,504	-	117,504
(24,042)	-	(24,042)
(1,491,180)	-	(1,491,180)
(114,568)	-	(114,568)
(651,835)	-	(651,835)
(1,574,018)	-	(1,574,018)
<u>(1,796,522)</u>	<u>-</u>	<u>(1,796,522)</u>
(7,099,630)	-	(7,099,630)
-	847,097	847,097
-	(3,950,255)	(3,950,255)
-	49,678	49,678
-	95,307	95,307
-	<u>11,393</u>	<u>11,393</u>
-	(2,946,780)	(2,946,780)
(7,099,630)	(2,946,780)	(10,046,410)
2,579,891	-	2,579,891
924,591	-	924,591
801,374	-	801,374
168,392	-	168,392
833,706	-	833,706
114,619	-	114,619
82,229	-	82,229
11,726	-	11,726
(9,098)	-	(9,098)
-	2,986,470	2,986,470
16,184	7,941	24,125
<u>291,132</u>	<u>(291,132)</u>	<u>-</u>
<u>5,814,746</u>	<u>2,703,279</u>	<u>8,518,025</u>
(1,284,884)	(243,501)	(1,528,385)
<u>3,683,057</u>	<u>1,481,953</u>	<u>5,165,010</u>
<u>2,398,173</u>	<u>1,238,452</u>	<u>3,636,625</u>
1,359,328	-	1,359,328
21,703	-	21,703
520,338	676,484	1,196,822
224,115	-	224,115
2,918,338	-	2,918,338
<u>(2,645,649)</u>	<u>561,968</u>	<u>(2,083,681)</u>
\$ <u>2,398,173</u>	\$ <u>1,238,452</u>	\$ <u>3,636,625</u>

CITY OF FAIRFIELD, IOWA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

		<u>Special Revenue</u>		
	<u>General</u>	<u>Road Use Tax</u>	<u>Local Option Sales Tax</u>	<u>Employee Benefits</u>
RECEIPTS:				
Property tax	\$ 2,322,450	\$ -	\$ -	\$ 801,374
Tax increment financing	-	-	-	-
Other City tax	196,848	-	833,706	-
Licenses and permits	21,927	-	-	-
Use of money and property	9,769	-	-	-
Intergovernmental	993,076	897,671	-	-
Charges for service	533,266	-	-	-
Miscellaneous	73,372	-	-	-
Total receipts	<u>4,150,708</u>	<u>897,671</u>	<u>833,706</u>	<u>801,374</u>
DISBURSEMENTS:				
Operating:				
Public safety	1,415,508	-	-	357,814
Public works	-	697,608	-	90,898
Health and social services	24,042	-	-	-
Culture and recreation	1,767,965	-	-	136,101
Community and economic development	65,879	-	-	-
General government	610,699	-	10,460	79,466
Debt service	-	-	-	-
Capital projects	-	89,921	-	-
Total disbursements	<u>3,884,093</u>	<u>787,529</u>	<u>10,460</u>	<u>664,279</u>
Excess (deficiency) of receipts over (under) disbursements	<u>266,615</u>	<u>110,142</u>	<u>823,246</u>	<u>137,095</u>
Other financing sources (uses):				
Loss on sale of assets	-	-	-	-
Operating transfers in	18,439	-	-	-
Operating transfers out	(1,388,718)	-	-	-
Total other financing sources (uses)	<u>(1,370,279)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in cash balances	(1,103,664)	110,142	823,246	137,095
CASH BALANCES - Beginning of year	<u>(187,224)</u>	<u>113,973</u>	<u>773,741</u>	<u>383,535</u>
CASH BALANCES - End of year	\$ <u>(1,290,888)</u>	\$ <u>224,115</u>	\$ <u>1,596,987</u>	\$ <u>520,630</u>
CASH BASIS FUND BALANCES:				
Nonspendable - Permanent fund	\$ -	\$ -	\$ -	\$ -
Restricted for:				
Urban renewal purposes	-	-	-	-
Debt service	-	-	-	-
Streets	-	224,115	-	-
Other Purposes	-	-	1,596,987	520,630
Unassigned	<u>(1,290,888)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total cash basis fund balances	\$ <u>(1,290,888)</u>	\$ <u>224,115</u>	\$ <u>1,596,987</u>	\$ <u>520,630</u>

			<u>Permanent</u>			
<u>Energy</u> <u>Efficiency</u>	<u>Fairfield</u> <u>Public Library</u> <u>Foundation</u>	<u>Debt</u> <u>Service</u>	<u>Capital</u> <u>Projects</u>	<u>Library</u> <u>Endowment</u>	<u>Nonmajor</u>	<u>Total</u>
\$ -	\$ -	\$ 924,591	\$ 257,441	\$ -	\$ -	\$ 4,305,856
-	-	-	-	-	168,392	168,392
-	-	-	-	-	-	1,030,554
-	-	-	-	-	-	21,927
-	-	-	-	-	6,382	16,151
190,505	-	-	40,799	-	-	2,122,051
-	-	-	-	-	-	533,266
-	-	-	-	474	14,491	88,337
<u>190,505</u>	<u>-</u>	<u>924,591</u>	<u>298,240</u>	<u>474</u>	<u>189,265</u>	<u>8,286,534</u>
-	-	-	-	-	-	1,773,322
-	-	-	-	-	-	788,506
-	-	-	-	-	-	24,042
19,790	-	-	-	-	45,071	1,968,927
-	-	-	-	-	68,988	134,867
-	-	-	-	-	-	700,625
-	-	1,574,018	-	-	-	1,574,018
-	-	-	2,799,224	-	-	2,889,145
<u>19,790</u>	<u>-</u>	<u>1,574,018</u>	<u>2,799,224</u>	<u>-</u>	<u>114,059</u>	<u>9,853,452</u>
<u>170,715</u>	<u>-</u>	<u>(649,427)</u>	<u>(2,500,984)</u>	<u>474</u>	<u>75,206</u>	<u>(1,566,918)</u>
-	(9,098)	-	-	-	-	(9,098)
-	246	1,020,104	1,211,853	-	-	2,250,642
-	-	-	(415,000)	(246)	(155,546)	(1,959,510)
-	(8,852)	1,020,104	796,853	(246)	(155,546)	282,034
170,715	(8,852)	370,677	(1,704,131)	228	(80,340)	(1,284,884)
<u>341,410</u>	<u>890,832</u>	<u>149,661</u>	<u>411,707</u>	<u>477,120</u>	<u>328,302</u>	<u>3,683,057</u>
\$ <u>512,125</u>	\$ <u>881,980</u>	\$ <u>520,338</u>	\$ <u>(1,292,424)</u>	\$ <u>477,348</u>	\$ <u>247,962</u>	\$ <u>2,398,173</u>
\$ -	\$ 881,980	\$ -	\$ -	\$ 477,348	\$ -	\$ 1,359,328
-	-	-	-	-	21,703	21,703
-	-	520,338	-	-	-	520,338
-	-	-	-	-	-	224,115
512,125	-	-	-	-	288,596	2,918,338
-	-	-	(1,292,424)	-	(62,337)	(2,645,649)
\$ <u>512,125</u>	\$ <u>881,980</u>	\$ <u>520,338</u>	\$ <u>(1,292,424)</u>	\$ <u>477,348</u>	\$ <u>247,962</u>	\$ <u>2,398,173</u>

CITY OF FAIRFIELD, IOWA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

	Enterprise Funds				
	<u>Water</u>	<u>Sewer</u>	<u>Logan Apartments</u>	<u>Nonmajor</u>	<u>Total</u>
<u>Operating receipts:</u>					
Use of money and property	\$ -	\$ -	\$ 156,038	\$ 64,480	\$ 220,518
Charges for service	2,393,980	2,746,919	-	525,940	5,666,839
Miscellaneous	6,252	-	1,689	-	7,941
Total operating receipts	<u>2,400,232</u>	<u>2,746,919</u>	<u>157,727</u>	<u>590,420</u>	<u>5,895,298</u>
<u>Operating disbursements:</u>					
Business type activities	<u>1,412,426</u>	<u>1,024,306</u>	<u>138,386</u>	<u>707,137</u>	<u>3,282,255</u>
Excess(deficiency) of operating receipts over(under) operating disbursements	<u>987,806</u>	<u>1,722,613</u>	<u>19,341</u>	<u>(116,717)</u>	<u>2,613,043</u>
<u>Non-operating receipts (disbursements):</u>					
Intergovernmental	241,002	-	106,518	369,547	717,067
Capital projects and equipment	(375,459)	(5,219,792)	(28,863)	(191,759)	(5,815,873)
Debt service	-	(453,076)	-	-	(453,076)
Net non-operating receipts (disbursements)	<u>(134,457)</u>	<u>(5,672,868)</u>	<u>77,655</u>	<u>177,788</u>	<u>(5,551,882)</u>
Excess (deficiency) of receipts over (under) disbursements	853,349	(3,950,255)	96,996	61,071	(2,938,839)
<u>Other financing sources (uses):</u>					
General obligation bond proceeds	-	2,986,470	-	-	2,986,470
Operating transfers in	-	208,426	-	-	208,426
Operating transfers out	<u>(449,558)</u>	<u>-</u>	<u>(50,000)</u>	<u>-</u>	<u>(499,558)</u>
Total other financing sources (uses)	<u>(449,558)</u>	<u>3,194,896</u>	<u>(50,000)</u>	<u>-</u>	<u>2,695,338</u>
Net change in cash balances	403,791	(755,359)	46,996	61,071	(243,501)
<u>CASH BALANCES - Beginning of year</u>	<u>(164,128)</u>	<u>1,553,095</u>	<u>144,250</u>	<u>(51,264)</u>	<u>1,481,953</u>
<u>CASH BALANCES - End of year</u>	<u>\$ 239,663</u>	<u>\$ 797,736</u>	<u>\$ 191,246</u>	<u>\$ 9,807</u>	<u>\$ 1,238,452</u>
<u>Cash Basis Fund Balances</u>					
Restricted for debt service	\$ 676,484	\$ -	-	\$ -	\$ 676,484
Unrestricted	<u>(436,821)</u>	<u>797,736</u>	<u>191,246</u>	<u>9,807</u>	<u>561,968</u>
Total cash basis fund balances	<u>\$ 239,663</u>	<u>\$ 797,736</u>	<u>191,246</u>	<u>\$ 9,807</u>	<u>\$ 1,238,452</u>

CITY OF FAIRFIELD, IOWA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Fairfield, Iowa is a political subdivision of the State of Iowa located in Jefferson County. It was first incorporated in 1847 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Fairfield, Iowa has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the City of Fairfield, Iowa (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationship with the City.

Blended Component Units

Friends of the Fairfield Public Library, Fairfield Public Library Foundation and Fairfield Parks and Recreation Foundation were established as non-profit corporations in accordance with Chapter 504A of the Code of Iowa. These non-profit corporations are legally separate from the City but are so intertwined with the City that they are, in substance, the same as the City. Their purpose is to benefit the City of Fairfield (the primary government) by soliciting contributions and managing those funds. The funds of these components units are reported as part of the City and blended into the Special Revenue Funds.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Jefferson County Assessor's Conference Board, Jefferson County Emergency Management Agency and Jefferson County E911 Joint Service Board. The City also participates in the Jefferson County Regional Service Agency, a jointly governed organization established pursuant to Chapter 28E of the Code of Iowa.

B. Basis of Presentation

Government-wide Financial Statement – The Statement of Activities and Net Assets - Cash Basis reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

CITY OF FAIRFIELD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation (Continued)

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following categories/components:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets - Cash Basis demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds and all remaining proprietary funds are aggregated and reported as nonmajor proprietary funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for local option sales tax collections.

The Employee Benefits Fund is used to account for the employee benefit tax levy used to fund pension and related employee benefits.

The Energy Efficiency Fund is used to account for the grants/loans received by the City for energy efficiency related improvements to City property.

The Fairfield Public Library Foundation Fund is used to account for donations received and purchases made for the benefit of the Fairfield Public Library.

The Debt Service Fund is utilized to account for property tax and other revenues to be used for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities with the exception of those financed through enterprise funds.

The Permanent Fund, Library Endowment is used to account for funds given to the library for endowment purposes.

CITY OF FAIRFIELD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation (Continued)

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer systems.

The Enterprise, Logan Apartments Fund accounts for the operation and maintenance of the City owned apartment building.

C. Measurement Focus and Basis of Accounting

The City of Fairfield, Iowa maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances:

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the Council intends to use for specific purposes.

Unassigned -- All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the health and social services, culture and recreation, general government and capital projects functions.

CITY OF FAIRFIELD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 2: CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2012, the City and its component units had the following investments:

<u>Type</u>	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Maturity</u>
Mutual Funds	\$ 838,034	\$ 891,665	N/A
Stocks	886	896	N/A
Corporate Bonds:			
Ohio State Development Assistance	10,029	10,751	April 1, 2017
Washington MO CTFT Build America	\$ 10,000	\$ 10,448	October 1, 2016

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

Concentration of credit risk – The City and the Fairfield Library Foundation place no limits on the amount that may be invested in any one issuer. However, the City's policy requires the City to diversify its investments to eliminate the risk of loss resulting from the over concentration of assets in a specific maturity, issuer or class of securities.

NOTE 3: LEASE-PURCHASE AGREEMENTS

The City has entered into a capital lease purchase agreement to lease a dump truck. The following is a schedule of the future minimum lease payments, including interest at 6.01% per annum, and the present value of net minimum lease payments under the agreement in effect at June 30, 2012:

<u>Year Ending June 30,</u>	<u>Amount</u>
2013	\$ 19,489
Less amount representing interest	<u>(1,105)</u>
Present value of net minimum lease payments	\$ <u>18,384</u>

During the year ended June 30, 2012, the City made principal payments of \$17,342 and interest payments of \$2,147 on capital leases.

NOTE 4: BONDS AND NOTES PAYABLE

Annual debt service requirements to maturity for general obligation bonds, general obligation capital loan notes, water revenue capital loan notes, sewer revenue capital loan notes and local option sales and services tax revenue bonds are as follows:

CITY OF FAIRFIELD, IOWA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 4: BONDS AND NOTES PAYABLE (Continued)

Year Ending June 30,	General Obligation				Sewer Revenue	
	<u>Bonds</u>		<u>Capital Loan Notes</u>		<u>Capital Loan Notes</u>	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 960,000	\$ 304,869	\$ 225,000	\$ 42,445	\$ 145,000	\$ 82,476
2014	985,000	280,443	225,000	32,785	150,000	85,918
2015	1,010,000	254,150	230,000	22,445	155,000	82,261
2016	1,045,000	225,195	235,000	11,520	160,000	78,627
2017	1,085,000	193,755	-	-	165,000	74,373
2018-2022	4,335,000	470,162	-	-	909,000	303,986
2023-2027	-	-	-	-	1,066,000	168,170
2028-2032	-	-	-	-	236,470	21,480
Total	\$ 9,420,000	\$ 1,728,574	\$ 915,000	\$ 109,195	\$ 2,986,470	\$ 897,291

Year Ending June 30,	Water Revenue		Local option Sales and Services		Tax Revenue Bonds		Total	
	<u>Capital Loan Notes</u>		<u>Principal</u>		<u>Interest</u>		<u>Principal</u>	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 317,000	\$ 123,420	\$ 65,000	\$ 18,524	\$ 1,712,000	\$ 571,734		
2014	327,000	113,910	65,000	16,899	1,752,000	529,955		
2015	338,000	104,100	65,000	15,063	1,798,000	478,019		
2016	349,000	93,960	65,000	12,998	1,854,000	422,300		
2017	360,000	83,490	70,000	10,598	1,680,000	362,216		
2018-2022	1,986,000	248,130	220,000	14,393	7,450,000	1,036,671		
2023-2027	437,000	13,110	-	-	1,503,000	181,280		
2028-2032	-	-	-	-	236,470	21,480		
Total	\$ 4,114,000	\$ 780,120	\$ 550,000	\$ 88,475	\$ 17,985,470	\$ 3,603,655		

Water Revenue Capital Loan Notes – On February 13, 2003, the City entered into an agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. for the issuance of \$5,797,000 of water revenue capital loan notes with interest at 3.00% per annum. The agreement requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The notes were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa for the purpose of paying the costs of construction, improvement and extensions to the municipal waterworks system.

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$5,797,000 of water revenue capital loan notes issued in February 2003. Proceeds from the notes provided financing for the construction of water main improvements and extensions. The notes are payable solely from water customer net receipts and are payable through 2023. Annual principal and interest payments on the notes are expected to require less than 89% of net receipts. The total principal and interest remaining to be paid on the notes is \$4,894,120. For the current year, total principal and interest paid on the February 2003 notes was \$450,683 and total customer net receipts were \$987,806.

The note resolution requires the City to provide for rates to be charged to produce net operating revenues equal to at least 110% of the principal and interest coming due in the next succeeding year for the February 2003 debt issuance.

The resolution providing for the issuance of the water revenue capital loan notes includes the following provisions:

- The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the fund.
- Sufficient monthly transfers shall be made to a separate water revenue note sinking account within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- Additional monthly transfers of 25% of the amount required to be deposited in the water revenue note sinking account shall be made to a water reserve account until \$451,202 is accumulated and maintained. At June 30, 2012, the balance in this account was \$483,747.

CITY OF FAIRFIELD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 4: BONDS AND NOTES PAYABLE (Continued)

Water Revenue Capital Loan Notes (Continued)

- d. All funds remaining after payment of all maintenance and operating expenses and the transfers to the restricted accounts noted above can be used to pay for extraordinary repairs or replacements to the water system, may be used to pay or redeem any notes and then can be used for any lawful purpose.

The City has made the transfers to the water sinking and reserve accounts as required by the water revenue capital loan note resolution.

Sewer Revenue Capital Loan Notes – On October 5, 2011, the City entered into an agreement with the Iowa Finance Authority and the Iowa Department of Natural Resources for the issuance of \$4,000,000 of sewer revenue capital loan notes with interest at 3.00% per annum. The agreement requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The notes were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa for the purpose of paying the costs of construction, improvement and extensions to the municipal wastewater treatment system.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$4,000,000 of sewer revenue capital loan notes issued in October 2011. Proceeds from the notes provided financing for the construction of wastewater treatment system. The notes are payable solely from sewer customer net receipts and are payable through 2032. Annual principal and interest payments on the notes are expected to require less than 89% of net receipts. The total principal and interest remaining to be paid on the notes is \$3,883,761. For the current year total principal and interest paid on the October 2011 notes was \$18,895 and total customer net receipts were \$1,722,613.

The note resolution requires the City to provide for rates to be charged to produce net operating revenues equal to at least 110% of the principal and interest coming due in the next succeeding year for the October 2011 debt insurance.

The resolution providing for the issuance of the sewer revenue capital loan notes includes the following provisions:

- a. The note will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the fund.
- b. Sufficient monthly transfers shall be made to a separate sewer revenue note sinking account within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- c. All funds remaining after payment of all maintenance and operating expenses and the transfers to the restricted accounts noted above can be used to pay for extraordinary repairs or replacements to the sewer system, may be used to pay or redeem any notes and then can be used for any lawful purpose.

The City has made the transfers to the sewer sinking and reserve accounts as required by the sewer revenue capital loan note resolution.

Local Option Sales and Services Tax Revenue Bonds

On June 29, 2010, the City issued local option sales and services tax revenue bonds for the purpose of purchasing the Fairfield Arts and Convention Center (formerly the Jefferson County Civic Center, Inc.).

The resolution providing for the issuance of the local option sales and services tax revenue bonds includes the following provisions:

- a) The bonds will only be redeemed from the future net revenues of local option tax revenues and the bond holders hold a lien on the future local option tax revenues received by the City.
- b) Sufficient monthly transfers shall be made to a separate local option sales tax sinking account for the purpose of making the bond principal and interest payments when due.
- c) Additional monthly transfers of 25% of the amount required to be deposited in the local option sales tax sinking account shall be made to a local option sales tax reserve account until \$55,000 is accumulated and maintained.

CITY OF FAIRFIELD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 5: PENSION AND RETIREMENT BENEFITS

Iowa Public Employees Retirement System – The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 5.38% of their annual covered salary and the City is required to contribute 8.07% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$188,177, \$155,562, and \$138,654, respectively, equal to the required contributions for each year.

Municipal Fire and Police Retirement System of Iowa – The City contributes to the Municipal Fire and Police Retirement System of Iowa (the Plan), which is a cost-sharing multiple employer defined benefit pension plan administered by a Board of Trustees. The Plan provides retirement, disability and death benefits established by state statute to plan members and beneficiaries. The Plan issues a publicly available financial report including financial statements and required supplementary information. The report may be obtained by writing to Municipal Fire and Police Retirement System of Iowa, 7155 Lake Drive, Suite 201, West Des Moines, IA 50266.

Plan members are required to contribute 9.40% of earnable compensation and the City's contribution rate, based upon an actuarially determined normal contribution rate, cannot be less than 17% of earnable compensation. Contribution requirements are established by state statute. The City's contributions to the Plan for the years ended June 30, 2012, 2011 and 2010 were \$182,282, \$145,705 and \$120,175, respectively, which met the required minimum contributions for each year.

NOTE 6: OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are 60 active and 8 retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a partial self funding of the City's health insurance benefit plan. The plan is funded by both employee and City contributions and is administered through a service agreement with Employee Benefit Systems. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members range from \$346 to \$408 for single coverage and from \$829 to \$946 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2012, the City contributed \$370,716 and plan members eligible for benefits contributed \$113,169 to the plan.

NOTE 7: COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave payable to employees at June 30, 2012, primarily relating to the General and Enterprise Funds, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 76,055
Sick leave	<u>123,794</u>
Total	\$ <u>199,849</u>

This liability has been computed based on rates of pay in effect at June 30, 2012. Sick leave is payable when used or, after an employment period of twenty years, upon termination, retirement or death. Accumulated sick leave hours are paid at the rate of one-half upon retirement or death and one-fourth upon termination.

CITY OF FAIRFIELD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 8: RISK MANAGEMENT

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 663 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150% of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contribution to the Pool for the year ended June 30, 2012 was \$217,525.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by the Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2012, settled claims have not exceeded the risk pool or reinsurance coverage since the Pools inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100% of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation, and other property and liability. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

CITY OF FAIRFIELD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 9: DEFICIT BALANCES

The General Fund had a deficit balance of \$1,290,888 at June 30, 2012.

The Special Revenue, Capital Projects Fund had a deficit balance of \$1,292,424 at June 30, 2012.

The Special Revenue, Iowa Power Fund had a deficit balance of \$62,337 at June 30, 2012.

The Enterprise Fund, Solid Waste Fund had deficit balances of \$146,091 at June 30, 2012.

The City is exploring alternatives to resolve the deficit balances.

NOTE 10: INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Enterprise: Logan Apartments	\$ <u>18,439</u>
Special Revenue: Fairfield Public Library Foundation	Special Revenue: Library Endowment	<u>246</u>
Debt Service	Special Revenue: Urban Renewal	
	Tax Increment Financing	155,546
	Capital Projects	415,000
	Enterprise: Water	<u>449,558</u>
		<u>1,020,104</u>
Capital Projects	General	1,180,292
	Enterprise: Logan Apartments	<u>31,561</u>
		<u>1,211,853</u>
Enterprise: Sewer	General	<u>208,426</u>
Total		\$ <u>2,459,068</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

NOTE 11: CONSTRUCTION COMMITMENTS

The City has entered into various construction contracts related to various City projects as of June 30, 2012. The remaining balance on the contracts will be paid as work on the projects progresses.

NOTE 12: LITIGATION

The City is involved in several lawsuits as of June 30, 2012. The probability of loss, if any, is undeterminable.

CITY OF FAIRFIELD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 13: PRIOR PERIOD ADJUSTMENTS

During the year ended June 30, 2012, it was determined that Schedule 3, the Schedule of Indebtedness was overstated. As a result, the following adjustments have been made to Schedule 3 as of June 30, 2011.

Total as previously reported June 30, 2011	\$ 16,981,726
Adjustments	<u>(500,000)</u>
Total as restated at June 30, 2011	\$ <u>16,481,726</u>

NOTE 14: SUBSEQUENT EVENTS

The City has evaluated subsequent events through February 21, 2013, the date the statements were available to be issued.

OTHER INFORMATION

CITY OF FAIRFIELD, IOWA

BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
OTHER INFORMATION
YEAR ENDED JUNE 30, 2012

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	Less Funds not Required to be Budgeted
<u>RECEIPTS:</u>			
Property tax	\$ 4,305,856	\$ -	\$ -
Tax increment financing	168,392	-	-
Other City tax	1,030,554	-	-
License and permits	21,927	-	-
Use of money and property	16,151	220,518	-
Intergovernmental	2,122,051	717,067	-
Charges for service	533,266	5,666,839	-
Special assessments	-	-	-
Miscellaneous	88,337	7,941	474
Total receipts	<u>8,286,534</u>	<u>6,612,365</u>	<u>474</u>
<u>DISBURSEMENTS:</u>			
Public safety	1,773,322	-	-
Public works	788,506	-	-
Health and social services	24,042	-	-
Culture and recreation	1,968,927	-	15,706
Community and economic development	134,867	-	-
General government	700,625	-	-
Debt service	1,574,018	-	-
Capital projects	2,889,145	-	-
Business type activities	-	9,551,204	-
Total disbursements	<u>9,853,452</u>	<u>9,551,204</u>	<u>15,706</u>
Excess (deficiency) of receipts over (under) disbursements	(1,566,918)	(2,938,839)	(15,232)
Other financing sources (uses), net	<u>282,034</u>	<u>2,695,338</u>	<u>(9,098)</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(1,284,884)	(243,501)	(24,330)
<u>BALANCES - Beginning of year</u>	<u>3,683,057</u>	<u>1,481,953</u>	<u>1,450,496</u>
<u>BALANCES - End of year</u>	\$ <u>2,398,173</u>	\$ <u>1,238,452</u>	\$ <u>1,426,166</u>

<u>Total</u>	<u>Budgeted Amounts</u>		<u>Final to Total Variance</u>
	<u>Original</u>	<u>Final</u>	
\$ 4,305,856	\$ 4,226,913	\$ 4,226,913	\$ 78,943
168,392	-	-	168,392
1,030,554	1,146,461	1,146,461	(115,907)
21,927	45,600	135,600	(113,673)
236,669	25,350	950,700	(714,031)
2,839,118	1,027,997	2,915,997	(76,879)
6,200,105	5,979,064	8,507,763	(2,307,658)
-	30,289	55,289	(55,289)
95,804	19,800	969,800	(873,996)
14,898,425	12,501,474	18,908,523	(4,010,098)
1,773,322	1,869,583	1,869,583	96,261
788,506	1,265,000	1,494,000	705,494
24,042	11,000	11,000	(13,042)
1,953,221	1,703,341	1,743,341	(209,880)
134,867	283,600	495,600	360,733
700,625	389,000	389,000	(311,625)
1,574,018	1,512,368	1,577,368	3,350
2,889,145	1,800,000	1,800,000	(1,089,145)
9,551,204	-	10,588,000	1,036,796
19,388,950	8,833,892	19,967,892	578,942
(4,490,525)	3,667,582	(1,059,369)	(3,431,156)
2,986,470	-	925,650	2,060,820
(1,504,055)	3,667,582	(133,719)	(1,370,336)
3,714,514	2,020,370	404,103	3,310,411
\$ 2,210,459	\$ 5,687,952	\$ 270,384	\$ 1,940,075

CITY OF FAIRFIELD, IOWA

NOTES TO OTHER INFORMATION – BUDGETARY REPORTING

JUNE 30, 2012

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the blended component units and the Permanent Fund. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, the budget was amended once, increasing disbursements by \$11,134,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the health and social services, culture and recreation, general government and capital projects functions.

SUPPLEMENTARY INFORMATION

CITY OF FAIRFIELD, IOWA

SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

	Special Revenue				
	Urban Renewal Tax Increment Financing	Live on The Square	Indian Creek Escrow	Library Memorial	Library Building Trust
RECEIPTS:					
Tax increment financing	\$ 168,392	\$ -	\$ -	\$ -	\$ -
Use of money and property	-	-	-	6,382	-
Miscellaneous	-	3,169	37	11,285	-
Total receipts	<u>168,392</u>	<u>3,169</u>	<u>37</u>	<u>17,667</u>	<u>-</u>
DISBURSEMENTS:					
Operating:					
Culture and recreation	-	5,463	-	23,902	-
Community and economic development	-	-	-	-	-
Total disbursements	<u>-</u>	<u>5,463</u>	<u>-</u>	<u>23,902</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	<u>168,392</u>	<u>(2,294)</u>	<u>37</u>	<u>(6,235)</u>	<u>-</u>
OTHER FINANCING SOURCES (USES):					
Transfers out	(155,546)	-	-	-	-
Total other financing sources (uses)	<u>(155,546)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in cash balances	<u>12,846</u>	<u>(2,294)</u>	<u>37</u>	<u>(6,235)</u>	<u>-</u>
CASH BALANCES - Beginning of year	<u>8,857</u>	<u>9,136</u>	<u>16,637</u>	<u>12,783</u>	<u>153</u>
CASH BALANCES - End of year	<u>\$ 21,703</u>	<u>\$ 6,842</u>	<u>\$ 16,674</u>	<u>\$ 6,548</u>	<u>\$ 153</u>
Cash Basis Fund Balances					
Restricted for:					
Other purposes	\$ -	\$ 6,842	\$ 16,674	\$ 6,548	\$ 153
Urban renewal purposes	21,703	-	-	-	-
Unassigned	-	-	-	-	-
	<u>\$ 21,703</u>	<u>\$ 6,842</u>	<u>\$ 16,674</u>	<u>\$ 6,548</u>	<u>\$ 153</u>

Special Revenue					
Fairfield Public Library House	Friends of the Fairfield Library	Fairfield Parks and Recreation Foundation	Iowa Power	UDAG-FALCO Project	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 168,392
-	-	-	-	-	6,382
-	-	-	-	-	14,491
-	-	-	-	-	189,265
-	-	15,706	-	-	45,071
-	-	-	-	68,988	68,988
-	-	15,706	-	68,988	114,059
-	-	(15,706)	-	(68,988)	75,206
-	-	-	-	-	(155,546)
-	-	-	-	-	(155,546)
-	-	(15,706)	-	(68,988)	(80,340)
3,901	994	81,550	(62,337)	256,628	328,302
\$ 3,901	\$ 994	\$ 65,844	\$ (62,337)	\$ 187,640	\$ 247,962
\$ 3,901	\$ 994	\$ 65,844	\$ -	\$ 187,640	\$ 288,596
-	-	-	-	-	21,703
-	-	-	(62,337)	-	(62,337)
\$ 3,901	\$ 994	\$ 65,844	\$ (62,337)	\$ 187,640	\$ 247,962

CITY OF FAIRFIELD, IOWA

SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
NONMAJOR PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

	<u>Airport Hanger</u>	<u>Solid Waste</u>	<u>Total</u>
<u>Operating receipts:</u>			
Use of money and property	\$ 64,480	\$ -	\$ 64,480
Charges for service	<u>-</u>	<u>525,940</u>	<u>525,940</u>
Total operating receipts	<u>64,480</u>	<u>525,940</u>	<u>590,420</u>
<u>Operating disbursements:</u>			
Business type activities	<u>192,590</u>	<u>514,547</u>	<u>707,137</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>(128,110)</u>	<u>11,393</u>	<u>(116,717)</u>
<u>Non-operating receipts (disbursements):</u>			
Intergovernmental	369,547	-	369,547
Capital projects and equipment	<u>(191,759)</u>	<u>-</u>	<u>(191,759)</u>
Net non-operating receipts (disbursements)	<u>177,788</u>	<u>-</u>	<u>177,788</u>
Net change in cash balances	49,678	11,393	61,071
<u>CASH BALANCES</u> - Beginning of year	<u>106,220</u>	<u>(157,484)</u>	<u>(51,264)</u>
<u>CASH BALANCES</u> - End of year	\$ <u>155,898</u>	\$ <u>(146,091)</u>	\$ <u>9,807</u>
<u>Cash Basis Fund Balances</u>			
Unrestricted	\$ <u>155,898</u>	\$ <u>(146,091)</u>	\$ <u>9,807</u>

CITY OF FAIRFIELD, IOWA
SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2012

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General obligation bonds:			
Street obligation	January 2, 1958	2.60 %	\$ 85,000
Library and street construction	May 1, 1995	5.00-5.60	3,300,000
Essential corporate purpose	September 1, 2006	4.00	6,925,000
Essential corporate purpose	July 1, 2010	1.00-3.40	4,915,000
Total			
General obligation capital loan notes:			
Refinance of series 2001A	January 24, 2011	0.6-1.90	1,135,000
Total			
Revenue bonds:			
Local option sales and services tax	June 29, 2010	2.35-4.40	550,000
Sewer revenue capital loan notes:			
State revolving	October 5, 2011*	3.00	4,000,000
Water revenue capital loan notes:			
State revolving	February 13, 2003 *	3.00	5,797,000
Capital lease-purchase agreements:			
2010 Freightliner dump truck	October 12, 2009	6.01	77,958
Total			
Grand Total			

* The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance.

SCHEDULE 3

<u>Balance Beginning of Year As Restated</u>	<u>Issued During Year</u>	<u>Redeemed/ Cancelled During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Principal and Interest Due and Unpaid</u>
\$ 5,000	\$ -	\$ -	\$ 5,000	\$ -	\$ 5,664
175,000	-	175,000	-	9,800	-
5,650,000	-	410,000	5,240,000	226,000	-
4,515,000	-	340,000	4,175,000	98,005	-
<u>10,345,000</u>	<u>-</u>	<u>925,000</u>	<u>9,420,000</u>	<u>333,805</u>	<u>5,664</u>
<u>1,130,000</u>	<u>5,000</u>	<u>220,000</u>	<u>915,000</u>	<u>16,818</u>	<u>-</u>
<u>1,130,000</u>	<u>5,000</u>	<u>220,000</u>	<u>915,000</u>	<u>16,818</u>	<u>-</u>
<u>550,000</u>	<u>-</u>	<u>-</u>	<u>550,000</u>	<u>9,644</u>	<u>-</u>
<u>-</u>	<u>2,986,470</u>	<u>-</u>	<u>2,986,470</u>	<u>18,895</u>	<u>-</u>
<u>4,421,000</u>	<u>-</u>	<u>307,000</u>	<u>4,114,000</u>	<u>143,683</u>	<u>-</u>
<u>35,726</u>	<u>-</u>	<u>17,342</u>	<u>18,384</u>	<u>2,147</u>	<u>-</u>
<u>35,726</u>	<u>-</u>	<u>17,342</u>	<u>18,384</u>	<u>2,147</u>	<u>-</u>
\$ <u>16,481,726</u>	\$ <u>2,991,470</u>	\$ <u>1,469,342</u>	\$ <u>18,003,854</u>	\$ <u>524,992</u>	\$ <u>5,664</u>

CITY OF FAIRFIELD, IOWA
BOND AND NOTE MATURITIES
JUNE 30, 2012

General Obligation Bonds									
Year Ending June 30,	Street Obligation			Essential Corporate Purpose		Essential Corporate Purpose			Total
	Issued January 2, 1958			Issued September 1, 2006		Issued July 1, 2010			
	Interest Rates		Amount	Interest Rates	Amount	Interest Rates		Amount	
2013	2.6	%	\$ 5,000	4.000	% \$ 430,000	1.250	% \$ 525,000	\$ 960,000	
2014			-	4.000	450,000	1.550	535,000	985,000	
2015			-	4.000	465,000	1.900	545,000	1,010,000	
2016			-	4.000	485,000	2.150	560,000	1,045,000	
2017			-	4.000	510,000	2.500	575,000	1,085,000	
2018			-	4.000	530,000	2.750	595,000	1,125,000	
2019			-	4.000	555,000	3.000	200,000	755,000	
2020			-	4.000	580,000	3.000	205,000	785,000	
2021			-	4.000	605,000	3.250	215,000	820,000	
2022			-	4.000	630,000	3.400	220,000	850,000	
2023			-		-		-	-	
2024			-		-		-	-	
2025			-		-		-	-	
2026			-		-		-	-	
2027			-		-		-	-	
2028			-		-		-	-	
2029			-		-		-	-	
Total			\$ 5,000		\$ 5,240,000		\$ 4,175,000	\$ 9,420,000	

SCHEDULE 4

General Obligation Refunding Capital Loan Notes 2011 Refinance Issued January 24, 2011		Sewer Revenue Capital Loan Notes - State Revolving Issued October 5, 2011		Water Revenue Capital Loan Notes - State Revolving Issued February 13, 2003		Local Option Sales and Services Tax Revenue Bonds Issued June 29, 2010	
Interest Rates	Amount	Interest Rates	Amount	Interest Rates *	Amount	Interest Rates	Amount
0.965 %	\$ 225,000	3.00 %	\$ 145,000	3.00 %	\$ 317,000	2.35 %	\$ 65,000
1.250	225,000	3.00	150,000	3.00	327,000	2.65	65,000
1.600	230,000	3.00	155,000	3.00	338,000	3.00	65,000
1.900	235,000	3.00	160,000	3.00	349,000	3.35	65,000
-	-	3.00	165,000	3.00	360,000	3.75	70,000
-	-	3.00	170,000	3.00	372,000	4.05	70,000
-	-	3.00	176,000	3.00	384,000	4.20	75,000
-	-	3.00	182,000	3.00	397,000	4.40	75,000
-	-	3.00	187,000	3.00	410,000	-	-
-	-	3.00	194,000	3.00	423,000	-	-
-	-	3.00	200,000	3.00	437,000	-	-
-	-	3.00	206,000	-	-	-	-
-	-	3.00	213,000	-	-	-	-
-	-	3.00	220,000	-	-	-	-
-	-	3.00	227,000	-	-	-	-
-	-	3.00	234,000	-	-	-	-
-	-	3.00	2,470	-	-	-	-
	<u>\$ 915,000</u>		<u>\$ 2,986,470</u>		<u>\$ 4,114,000</u>		<u>\$ 550,000</u>

CITY OF FAIRFIELD, IOWA

SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION
ALL GOVERNMENTAL FUNDS

FOR THE LAST TEN YEARS

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
<u>RECEIPTS:</u>					
Property tax	\$ 4,305,856	\$ 4,205,134	\$ 4,076,420	\$ 3,949,455	\$ 3,639,821
Tax increment financing	168,392	253,181	429,971	332,517	232,613
Other city tax	1,030,554	966,858	960,005	1,027,994	991,721
Licenses and permits	21,927	23,588	25,681	22,741	29,359
Use of money and property	16,151	24,366	43,279	89,382	88,133
Intergovernmental	2,122,051	2,270,294	2,179,131	1,463,822	3,217,212
Charges for service	533,266	480,915	350,499	303,182	292,480
Special assessments	-	71,947	64,130	75,582	44,482
Miscellaneous	88,337	569,010	263,644	507,741	248,944
Total	\$ <u>8,286,534</u>	\$ <u>8,865,293</u>	\$ <u>8,392,760</u>	\$ <u>7,772,416</u>	\$ <u>8,784,765</u>
<u>DISBURSEMENTS:</u>					
Operating:					
Public safety	\$ 1,773,322	\$ 1,857,711	\$ 1,705,256	\$ 1,761,035	\$ 1,626,961
Public works	788,506	120,088	1,060,704	906,095	997,862
Health and social services	24,042	39,585	13,000	13,081	12,786
Culture and recreation	1,968,927	1,491,155	1,641,994	1,626,771	1,490,126
Community and economic development	134,867	1,263,995	300,665	199,972	116,881
General government	700,625	815,111	1,155,196	405,982	387,699
Non-program	-	-	-	-	-
Debt service	1,574,018	2,787,905	1,235,630	1,245,752	1,016,258
Capital projects	2,889,145	3,444,543	2,143,000	1,913,794	3,796,689
Total	\$ <u>9,853,452</u>	\$ <u>11,820,093</u>	\$ <u>9,255,445</u>	\$ <u>8,072,482</u>	\$ <u>9,445,262</u>

SCHEDULE 5

<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
\$ 3,350,952	\$ 3,236,344	\$ 3,037,373	\$ 2,852,293	\$ 3,088,534
210,355	229,701	230,189	411,499	316,671
968,336	911,782	914,871	1,037,115	959,462
21,441	27,043	24,228	15,800	14,960
104,655	45,527	107,630	80,340	38,694
4,965,682	2,635,955	2,758,221	1,012,520	2,255,519
323,930	346,434	337,963	316,174	321,895
51,081	27,614	33,834	59,290	51,290
284,838	197,893	192,099	317,859	170,190
<u>\$ 10,281,270</u>	<u>\$ 7,658,293</u>	<u>\$ 7,636,408</u>	<u>\$ 6,102,890</u>	<u>\$ 7,217,215</u>
\$ 1,570,831	\$ 1,589,215	\$ 1,751,741	\$ 2,035,789	\$ 2,006,603
942,597	977,938	898,017	900,369	871,806
17,801	9,720	12,220	9,720	6,683
1,591,083	1,536,035	1,444,278	1,289,611	1,305,919
100,958	107,223	85,867	163,464	101,835
374,948	397,803	342,499	346,384	306,993
-	-	-	-	36,722
1,116,957	901,491	901,981	942,223	1,104,910
7,085,671	3,845,328	2,527,712	783,568	2,101,125
<u>\$ 12,800,846</u>	<u>\$ 9,364,753</u>	<u>\$ 7,964,315</u>	<u>\$ 6,471,128</u>	<u>\$ 7,842,596</u>

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and
Members of the City Council

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Fairfield, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated February 21, 2013. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of the City of Fairfield, Iowa is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Fairfield, Iowa's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Fairfield, Iowa's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Fairfield, Iowa's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Fairfield, Iowa's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part II of the accompanying Schedule of Findings as items II-A-12, II-B-12, II-C-12, II-D-12, II-E-12 and II-F-12 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings as items II-G-12, II-H-12 and II-I-12 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Fairfield, Iowa's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Fairfield, Iowa's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Fairfield, Iowa's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Fairfield, Iowa and other parties to whom the City of Fairfield, Iowa may report including federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Fairfield, Iowa during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

ANDERSON, LARKIN & CO. P.C.

Ottumwa, Iowa
February 21, 2013

CITY OF FAIRFIELD, IOWA
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2012

Part I: Summary of the Independent Auditor's Results

- a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements

Internal Control Deficiencies:

II-A-12 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee acts as a check of those of another. One person has control over each of the following areas for the City:

- a) Bank accounts were not reconciled by an individual who does not handle or record cash. Bank reconciliations were not reviewed by an independent person for propriety.
- b) Receipts – opening mail, collecting, depositing, journalizing and posting.
- c) Utility receipts – opening mail, billing collecting, depositing, posting, reconciling and maintaining detail accounts receivable records.
- d) Disbursements – preparing checks, signing checks and access to accounting records.
- e) Journal entries are not reviewed and approved. In addition, journal entries were not supported.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – Implementation of cross training has started. A physical office reconfiguration is in process which will allow three individual staff positions to be placed together. This will be one of the first steps in segregation of duties. Supervisory personnel will then be responsible for maintaining the segregation of duties.

Conclusion – Response accepted.

II-B-12 Initial List of Receipts – An initial listing of receipts is not prepared by the mail opener prior to forwarding the checks to the bookkeeper for receipt processing and deposit preparation.

Recommendation – The mail opener should prepare an initial listing of receipts and, after the receipts have been processed and the deposit has been prepared by the bookkeeper, an independent person should reconcile the initial listing against the deposit.

Response – This will be addressed as part of the office reconfiguration described above.

Conclusion – Response accepted.

II-C-12 Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period and to reconcile collections to deposits. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies.

Response – With the changes to the accounting system which are in process, new internal control procedures will be implemented including accounts receivable reconciliation.

Conclusion – Response accepted.

CITY OF FAIRFIELD, IOWA
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2012

II-D-12 Logan Apartments – The City owns an apartment complex with forty-seven units. The following were noted:

- a) The bookkeeping and custody of the Enterprise, Logan Apartments Deposit account certificate of deposit is under the control of the Manager of Logan Apartments in a location separate from the Clerk's office. This account is not reflected in the City's books. This matter was resolved for audit purposes.
- b) Duties are not segregated as the Manager prepares the tenant certifications, prepares housing assistance payment requests, collects rent, reconciles the rent receivable each month, collects and refunds security deposits and performs other accounting duties for the apartments.
- c) A current listing of security and pet deposits by tenant is not prepared and maintained.

Recommendation – Control activities for Logan Apartments should be reviewed to obtain the maximum internal control possible under the circumstances. A listing of rent receipts should be prepared. Also, prenumbered receipts should be issued for all cash collections. The receipt listing and prenumbered receipts should be reconciled each month to rent deposits per the City's records and rent receivables and should be reviewed by an independent person. In addition, a log of security and pet deposits by apartment should be maintained and reconciled to the City's records periodically by an independent person. Also, rent owed each month versus rent collected as well as rent receivables should be reconciled monthly and reviewed by an independent person.

Response – An internal review will be conducted to determine what new policies and procedures need to be implemented to provide the appropriate level of control.

Conclusion – Response accepted.

II-E-12 Parks and Recreation Receipts Process – The City's Parks and Recreation Department has weaknesses in segregation of duties for the collection of receipts, as follows:

- a) A receipt log of all Parks and Recreation receipts is prepared in the Department. However, an independent reconciliation is not performed to ensure all receipts per the receipt log were deposited by the City.
- b) Certain locations use a cash register for admissions and concession sales. The cash register tapes are not reconciled to the receipts log maintained at the Parks and Recreation Department by an independent person.
- c) Prenumbered receipts are used only upon request of the payee or when a credit card is used.
- d) One employee is responsible for collecting, depositing and reconciling receipts.

Recommendation – The City should develop procedures for the following:

- a) On a periodic basis, an independent person should reconcile the receipt log/deposit listing to the City Hall receipt confirmation and evidence this review by initialing the reconciliation.
- b) An independent person should reconcile the cash register tapes to the log and evidence the reconciliation by initialing the log.
- c) Prenumbered receipts should be issued for all collections which are not recorded through a cash register. On a periodic basis, a person independent of the receipt process should reconcile prenumbered receipts issued to deposits.
- d) The City should review its internal control procedures to obtain the maximum internal control possible under the circumstances.

Response – An internal review will be conducted to determine what new policies and procedures need to be implemented to provide the appropriate level of control including receipt registers and prenumbered receipts.

Conclusion – Response accepted.

CITY OF FAIRFIELD, IOWA

SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2012

- II-F-12 Financial Reporting – Subsequent to the issuance of the financial statements for the year ended June 30, 2012, it was determined that the City had mistakenly overstated debt in the prior period. The effect of this item is shown in Note 13 of the current year financial statements.

Recommendation – Procedures should be implemented to ensure that all assets, liabilities, revenues and expenses are correctly reported in the future.

Response – We will do so in the future.

Conclusion – Response accepted.

- II-G-12 Electronic Data Processing Systems – The City does not have a written policy to require users to use screen saver passwords to protect personal computers (PCs) during the day when left unattended.

Although there is a written policy for maintaining password privacy and confidentiality, it has a provision which can allow the City Administrator or other authorized personnel to require an employee to share their password.

The City's computer system does not identify who processed transactions.

The City does not have a written disaster recovery plan.

Recommendation – The City should develop a policy to require users to put in place a screen saver password to protect PCs during the day when left unattended.

To improve the City's control over its computer-based systems, the City should revise the written policy addressing password privacy to not allow the sharing of passwords.

The City's computer system should identify who processes transactions.

The City should adopt a written disaster recovery plan.

Response – Almost all of our PCs do have screen saver passwords at this time. We will work on a policy addressing the sharing of passwords and developing a disaster recovery plan.

Conclusion – Response accepted.

- II-H-12 Credit Cards – The City has credit cards for use by various employees while on City business. The City has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges.

Recommendation – The City should adopt a formal written policy regulating the use of City credit cards. The policy, at a minimum, should address who controls credit cards, who is authorized to use credit cards and for what purposes, as well as the types of supporting documentation required to substantiate charges.

Response – As part of the new accounting policies and procedures manual, a policy will be implemented for credit card use.

Conclusion – Response accepted.

- II-I-12 Bank Reconciliation – Several items were noted on the City's bank reconciliation that should be posted to the general ledger and removed from the reconciliation.

Recommendation – The City should review the bank reconciliation and adjust and remove items from the reconciliation as appropriate.

Response – The reconciliation will be reviewed and adjusted.

Conclusion – Response accepted.

Instances of Noncompliance:

No matters were noted

CITY OF FAIRFIELD, IOWA
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2012

Part III: Other Findings Related to Required Statutory Reporting

III-A-12 Certified Budget – Disbursements during the year ended June 30, 2012 exceeded the amounts budgeted in the health and social services, culture and recreation, general government and capital projects functions. Also when the original budget was certified, no business-type activities were budgeted and business type activities were over budget until it was amended in late May 2012. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – With the change to the new accounting system, new reporting standards will also be set to ensure internal review of budget items on a monthly basis. Any amendments will be brought to the City Council and addressed in a timely manner.

Conclusion – Response accepted.

III-B-12 Questionable Disbursements – No disbursements were noted that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

III-C-12 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

III-D-12 Business Transactions – No business transactions between the City and City officials or employees were noted.

III-E-12 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

III-F-12 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

III-G-12 Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

III-H-12 Financial Condition – At June 30, 2012, the City had deficit balances in the following accounts:

<u>Fund/Account</u>	<u>Amount</u>
Fire Truck	\$ 8,976
Iowa Power	62,337
Civic Center Purchase	14,413
Safe Routes to School	13,462
Civic Center	10,422
Recreation Trails	7,982
Highway 1 Bridge Project	1,034
Downtown Fund	350,439
Sidewalk Improvements	286,091
Walton Lake Subdivision	193,125
2008 RISE	6,124
Bypass Forcemain Relocation	45,735
Bypass Cross Interceptor Relocation	134,109
Bypass Crow Creek Relocation	27,150
Bypass Water Main Relocation	292,422
Runway 18/36 Phase II	83,269
2006 Street Project	27,156
Kirkwood	188,471
State Revolving	277,449
Sinking	29,837
Solid Waste	146,091

CITY OF FAIRFIELD, IOWA
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2012

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return these accounts to a sound financial condition.

Response – Each account is being evaluated. Some accounts will be merged with other accounts to streamline the operation and bring records up to date. Rates will be evaluated to ensure costs are covered.

Conclusion – Response accepted.

- III-I-12 Separately Maintained Records – The Special Revenue, Indian Creek Escrow, Library Memorial, Library Building Trust, Fairfield Public Library House and Live on the Square Funds, Enterprise, Logan Apartment certificate of deposit and the Permanent, Library Endowment Funds were not reflected in the City's accounting system or monthly fund balances.

Recommendation – Chapter 384.20 of the Code of Iowa requires a City to keep accounts which show an accurate and detailed statement of all public funds collected, received or expended for any City purpose.

The Special Revenue, Indian Creek Escrow, various Library funds and Live on the Square activity, the Enterprise, Logan Apartment certificate of deposit and the Permanent, Library Endowment Fund should be reflected in the City's monthly financial statements.

Response – Communication will be made with each of these entities to determine the appropriate direction which should be taken for the accounts described above.

Conclusion – Response accepted.

- III-J-12 Tax Increment Financing (TIF) – The City has certified debt in five urban renewal areas with debt included on the City's TIF Indebtedness Certification. TIF receipts for all five urban renewal areas are included in one Special Revenue, Urban Renewal Tax Increment Financing Fund of the City and the City does not maintain the receipts and disbursements of each urban renewal area separately.

The City transferred \$155,546 from the Special Revenue, Urban Renewal Tax Increment Financing Fund to the Debt Service Fund to reimburse the Debt Service Fund for the TIF portion of the general obligation notes. However, the TIF portion of the general obligation note principal and interest due in the fiscal year ended June 30, 2012 was \$110,045. Therefore, the City transferred \$45,501 more than was required from the Special Revenue, Urban Renewal Tax Increment Financing Fund to the Debt Service Fund in the fiscal year ended June 30, 2012. Also, in prior years, the City transferred \$289,850 more than was required from the Special Revenue, Urban Renewal Tax Increment Financing Fund to the Debt Service Fund, for a total of \$335,351.

The City's general obligation capital loan notes, series 2001A, is split between three urban renewal areas and a portion which is not TIF related. When the City included the TIF portions on the City's TIF Indebtedness Certification, the allocation between the three urban renewal areas and the portion which is not TIF related was miscalculated, which resulted in too much TIF debt being included on the City's TIF Indebtedness Certification for each of the three TIF districts by \$118,270, \$16,340 and \$60,667, or a total of \$195,277. The last payment on the notes is due in the fiscal year ending June 30, 2016.

CITY OF FAIRFIELD, IOWA

SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2012

Recommendation – The City should establish subaccounts for the Special Revenue, Urban Renewal Tax Increment Financing Fund to record receipts, disbursements and a fund balance separately for each urban renewal area to match TIF tax collections with the TIF debt paid for each urban renewal area.

The City should only make transfers from the Special revenue, Urban Renewal Tax Increment Financing Fund to the Debt Service fund for the TIF debt coming due in the fiscal year. Also, the City should transfer \$335,351 from the Debt Service Fund to the Special Revenue, Urban Renewal Tax Increment Financing Fund to reimburse the Special Revenue, Urban Renewal Tax Increment Financing Fund.

The City should complete and send Form 3, the TIF Indebtedness Certification, to the County Auditor to reduce the TIF indebtedness outstanding for the amounts overcertified.

The City should consult bond counsel to determine the disposition of these issues.

Response – The City will complete and send Form 3, the TIF Indebtedness Certification, to the County. With the new accounting structure, subaccounts will be managed and better detailed record keeping will be implemented. The City will try to repay the \$335,351 to the Special Revenue, Urban Renewal Tax Increment Financing Fund.

Conclusion – Response accepted.